26th July 2016

Luxury & Consumer Goods

Groupe SEB

Price EUR122.65

The success story is not over

Fair Value EUR132 vs. EUR125 (+8%) **BUY**

Bloomberg	SK FP
Reuters	SEBF.PA
12-month High / Low (EUR)	122.7 / 79.5
Market Cap (EUR)	6,153
Ev (BG Estimates) (EUR)	8,328
Avg. 6m daily volume (000)	53.00
3y EPS CAGR	25.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	14.6%	38.5%	37.3%	29.7%
Consumer Gds	6.0%	1.9%	4.9%	-1.3%
DJ Stoxx 600	5.9%	-1.7%	1.4%	-6.8%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	4,770	5,334	6,416	6,732
% change		*11.8%*	*20.3%*	*4.9%*
Adj. EBIT	428	510	664	714
Rep. EBIT	396.6	475.3	622.2	669.3
% change		*19.8%*	*30.9%*	*7.6%*
Net income	205.9	259.9	357.3	403.7
% change		*26.2%*	*37.5%*	*13.0%*

	2015	2016e	2017e	2018e
Rep. EBIT margin	8.3	8.9	9.7	9.9
Net margin	4.3	4.9	5.6	6.0
ROE	13.2	17.9	20.5	19.8
ROCE	12.8	8.8	10.7	11.4
Gearing	16.5	120.5	100.2	75.5

(€)	2015	2016e	2017e	2018e
EPS	4.14	5.23	7.19	8.12
% change	-	*26.2%*	*37.5%*	*13.0%*
P/E	29.6x	23.5x	17.1x	15.1x
FCF yield (%)	5.1%	3.6%	4.2%	6.6%
Dividends (€)	1.54	1.65	1.85	2.05
Div yield (%)	1.3%	1.3%	1.5%	1.7%
EV/Sales	1.4x	1.6x	1.3x	1.2x
EV/EBITDA	15.1x	16.3x	12.3x	11.1x
EV/EBIT	16.3x	17.5x	13.2x	11.8x

At the Analysts' Meeting yesterday, management gave more details about the growth drivers that should play positively not only in H1 but also in H2, despite some weak trends in key markets such as Brazil or the US. Since SEB's stand-alone fundamentals are clearly strong, we believe that all eyes will be on the integration of EMSA (in Q3) and WMF (probably in Q4). We have nudged up our FY16 estimates and updated our beta assumption, leading to our new FV of EUR132 vs. EUR125.

ANALYSIS

- **Performances within the group's top 20 markets are more heterogeneous.** Whereas only two countries on the list were down in H1 2015 (Belgium and Germany), this year seven markets were in negative territory, although for two of these (**Italy** and **Mexico**), the sales decline was explained by the non-renewal of loyalty programmes (LPs) this year. This higher volatility did not prevent SEB from posting robust growth in key markets: **China** (+17% LFL), **Germany** (+13.5%), **Japan** (+11%) and **South Korea** showed double-digit growth over H1 and we can also highlight the good performance in France (+5.7% LFL but +9.1% stripping out the LP impact). These solid underlying trends justify the group's confidence in H2, which historically, accounts for ~56% of FY revenue.
- **Some initiatives in the US (~10% of sales) and Brazil (~4% of sales) to cope with a complicated retail environment.** SEB's "traditional customers" in the **US** (Macy's, Sears, etc.) are suffering from the ramp-up at e-retailers (e.g.: Amazon), which now account for ~20-25% of the US SDA market, leading to a destocking phase in cookware in Q1. Thanks to careful inventory management and a good push in the high end cookware segment (All-Clad), trends have gradually improved (overall LFL almost flat vs. double-digit decline in Q1). As announced ealier this year, SEB is relocating its SDA plant in the Northern part of **Brazil** in order to improve its competitiveness there and deal with a challenging macro environment (-15% LFL in Q2 vs. slight decline in Q1). This relocation has implied restructuring costs of EUR16m in H1 but no further costs are expected this year.
- **Fewer LPs in H1 2016: ~1pp impact on LFL growth.** At the FY 2015 results in February, the group's management declared that 2016 would be a "normal year" for LPs (i.e. approx. EUR80m) after a busy 2015 year (EUR130m), representing a delta of **1pp on FY LFL growth**. In H1, this was exactly the negative effect registered by SEB as some LPs in Italy, Mexico and elsewhere were not renewed this year. Consequently we anticipate the same negative impact for H2 2016.
- **EMSA and particularly WMF are the next significant catalysts.** Since the acquisition of WMF is not completed yet, there was not much new said, although the group reiterated all the targets in terms of accretive impacts, adding weight to our assumptions for 2017: we anticipate a positive scope effect of ~21% on the top line, an accretive impact of ~24% on adj. EBITDA and of ~20% on EPS. These estimates are based on a cautious synergy plan of EUR10m for 2017 and EUR40m for 2020 (SEB's guidance).
- **Minor adjustments to our FY16 adjustments (+1% on EPS).** Against better-than-expected LFL growth (+6.9% vs. +5%e) and favourable trends in EMEA and China, we have raised our LFL growth forecast to 5.6% vs. +5% previously (guidance: "above 5%"). This move is partly offset by a more harmful FX impact. We leave our adj. EBIT margin assumption unchanged (+60bp to 9.6%). At the bottom of the P&L, a lower tax rate (24.5% vs. +26% initially, guidance: ~24%) is partly offset by higher one-off charges (restructuring costs, revaluation of property assets in Germany, etc.).

VALUATION

- These small adjustments (EUR1) and an update to our beta assumption (EUR6) lead to our new FV of EUR132 from EUR125. Buy recommendation confirmed to play the robust operating performance of SEB stand-alone that will be combined with the integration of EMSA and WMF. As a reminder, we see limited risks surrounding these deals (excellent track-record with M&A, low cost of financing).

NEXT CATALYSTS

- Analyst Day on 4th October // Q3 2016 Sales on 25th October.

Click here to download document

Analyst:
Cédric Rossi
33(0) 1 70 36 57 25
crossi@bryangarnier.com

Consumer Analyst Team:
Nikolaas Faes
Loïc Morvan
Antoine Parison
Virginie Roumage

Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY — Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

NEUTRAL — Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

SELL — Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 55% NEUTRAL ratings 34.2% SELL ratings 10.7%

Research Disclosure Legend

1	Bryan Garnier shareholding in Issuer	Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer").	No
2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
3	Financial interest	A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report	No
4	Market maker or liquidity provider	A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives.	No
5	Lead/co-lead manager	In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives.	No
6	Investment banking agreement	A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services.	No
7	Research agreement	A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report.	No
8	Analyst receipt or purchase of shares in Issuer	The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares.	No
9	Remuneration of analyst	The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group.	No
10	Corporate finance client	In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months.	No
11	Analyst has short position	The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer.	No
12	Analyst has long position	The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer.	No
13	Bryan Garnier executive is an officer	A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person's household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above.	No
14	Analyst disclosure	The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.	Yes
15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	No

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at www.bryangarnier.com

London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the
Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the
Financial Conduct Authority (FCA) and the
Autorité de Contrôle prudential et de
resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Munich
Widenmayerstrasse 29
80538 Munich
Germany
+49 89 2422 62 11

New Delhi
The Imperial Hotel Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA